

Euro area bank lending survey of April 2018: main results for Latvia

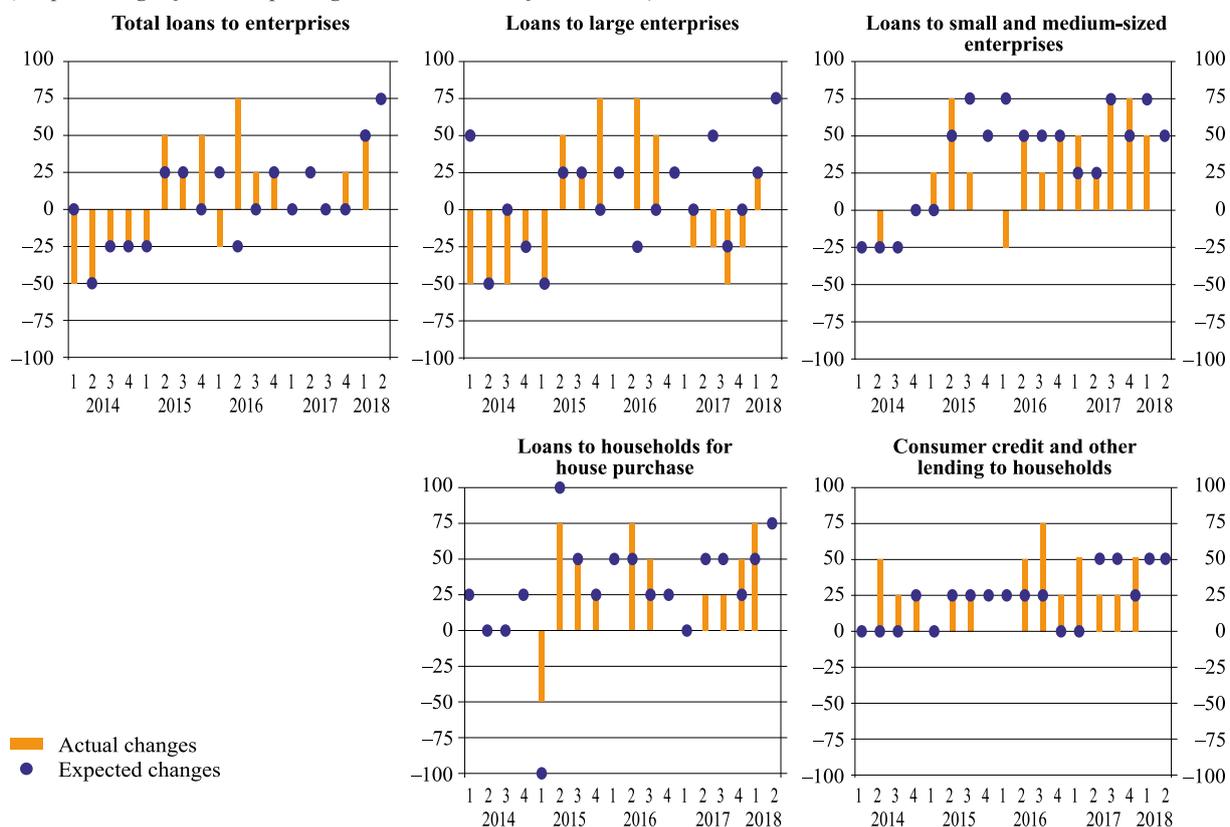
Latvijas Banka conducted a euro area bank lending survey in cooperation with the European Central Bank in April 2018, covering the lending developments during the first quarter of 2018 and expectations for the second quarter of 2018. Four Latvian banks whose total market share in lending to non-financial corporations and households is large enough to represent lending development in Latvia as a whole participated in the survey. Their replies have been incorporated in the euro area bank lending survey results.

Demand for loans

The demand for loans to enterprises continued to rise in the first quarter of 2018. Moreover, the assessment provided by banks with regard to the increase in loan demand to small and medium-sized enterprises was more persuasive than that of large enterprises (see Chart 1). Two of the surveyed Latvian banks reported a slight increase in demand for overall loans to enterprises and for loans to small and medium-sized enterprises. Meanwhile, only one bank believed that the demand for loans to large enterprises had expanded marginally. The Latvian banks reporting a minor rise in the demand for loans to enterprises considered that the demand for both short-term and long-term loans had picked up equally strongly.

Chart 1
CHANGES IN LOAN DEMAND

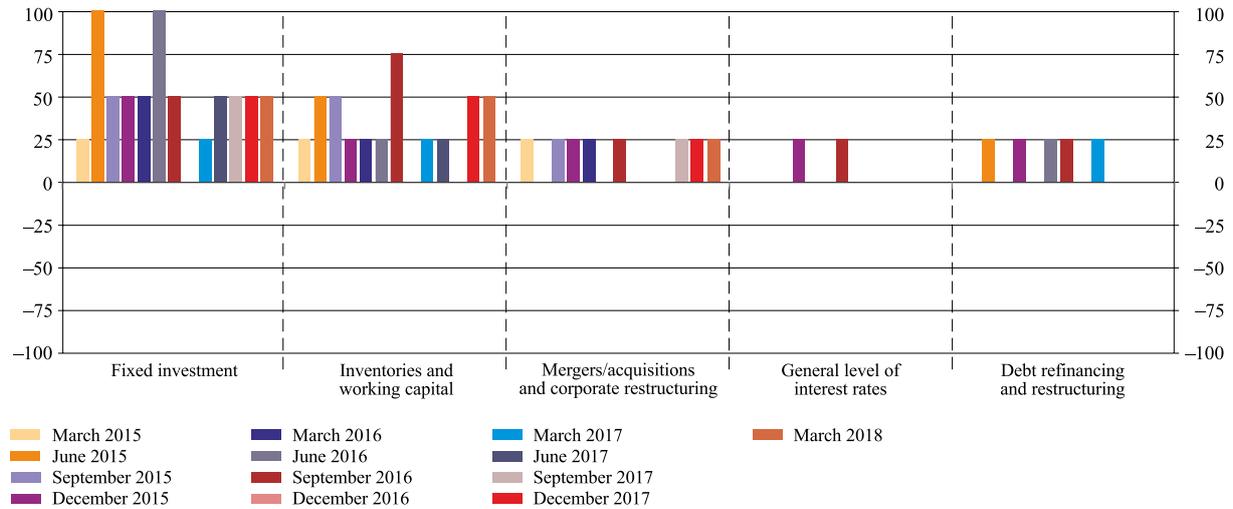
(net percentage of banks reporting increased demand for loans; %)



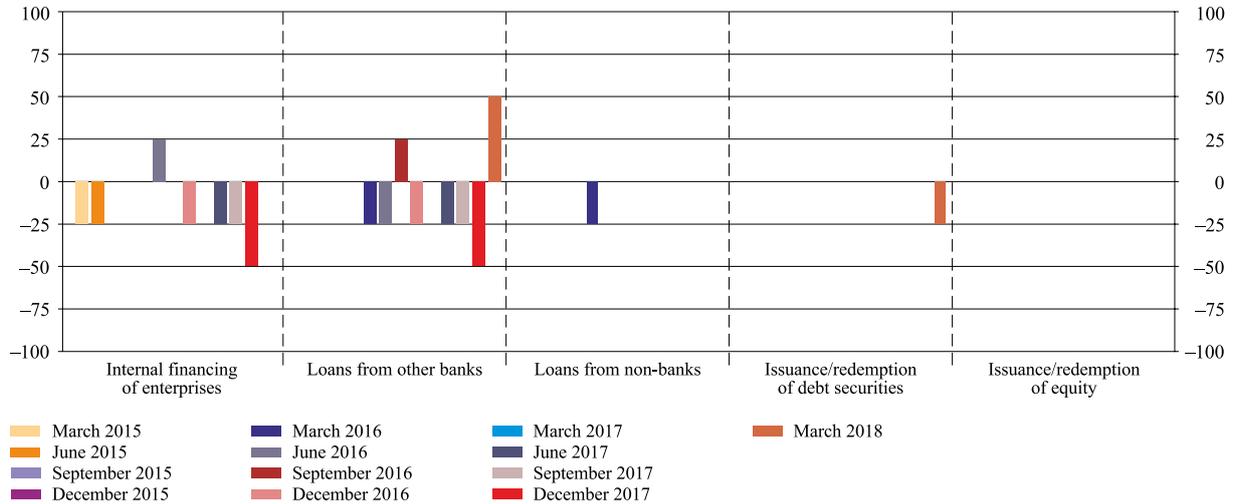
In the first quarter of 2018, as in the previous one, two of the surveyed Latvian banks explained the observed increase in the demand for loans to enterprises by the need to increase fixed investment and boost inventories and working capital, whereas one bank thought that the reason was mergers, acquisitions and corporate restructuring. However, in addition to the above, the demand for loans to enterprises was enhanced by the necessity of domestic enterprises to refinance their loans following the decision on self-liquidation taken by *ABLV Bank, AS* on 26 February 2018. Loans granted by other banks facilitated the demand for loans to enterprises in two surveyed Latvian banks (slightly in one bank and significantly in the other one). One bank pointed out that the demand for loans to enterprises was slightly limited owing to the issuance of corporate debt securities (see Chart 2).

Chart 2
FACTORS CONTRIBUTING TO DEMAND FOR LOANS TO ENTERPRISES
(net percentage of banks reporting positive factor contributions; %)

a) Financing needs, contributing factors or objectives underlying demand for loans

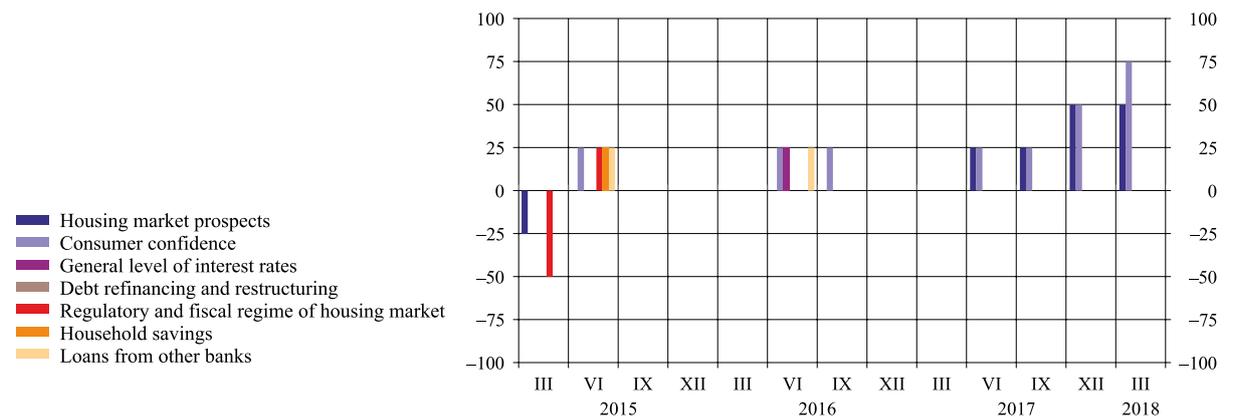


b) Use of alternative finance



Three of the surveyed Latvian banks expect that the demand for loans to enterprises will slightly increase overall in the second quarter of 2018. All the above banks expect growth in the demand for loans to large enterprises, short-term and long-term loans. Two surveyed Latvian banks expect a minor rise in the demand for loans to small and medium-sized enterprises in the respective period.

Chart 3
FACTORS CHARACTERISING HOUSEHOLD DEMAND FOR LOANS FOR HOUSE PURCHASE
(net percentage of banks reporting positive factor contributions; %)



In the first quarter of 2018, household demand for loans for house purchase increased marginally in three of the four surveyed Latvian banks. The factors most frequently mentioned as slightly contributing to an increase in the demand for loans for house purchase (see Chart 3) were as follows: strengthening of consumer confidence (in three of the four banks), the improvement in housing market prospects (in two banks) and the extension of the support programme for young families to purchase housing by including also support to young specialists in the above programme (in one bank).

Overall, the demand for consumer credits and other lending for households remained unchanged in all surveyed banks. However, it was consumer confidence that contributed positively to the demand for such credits in two surveyed Latvian banks, but in one bank it was households' spending on durable goods (cars and furniture) that played an important role.

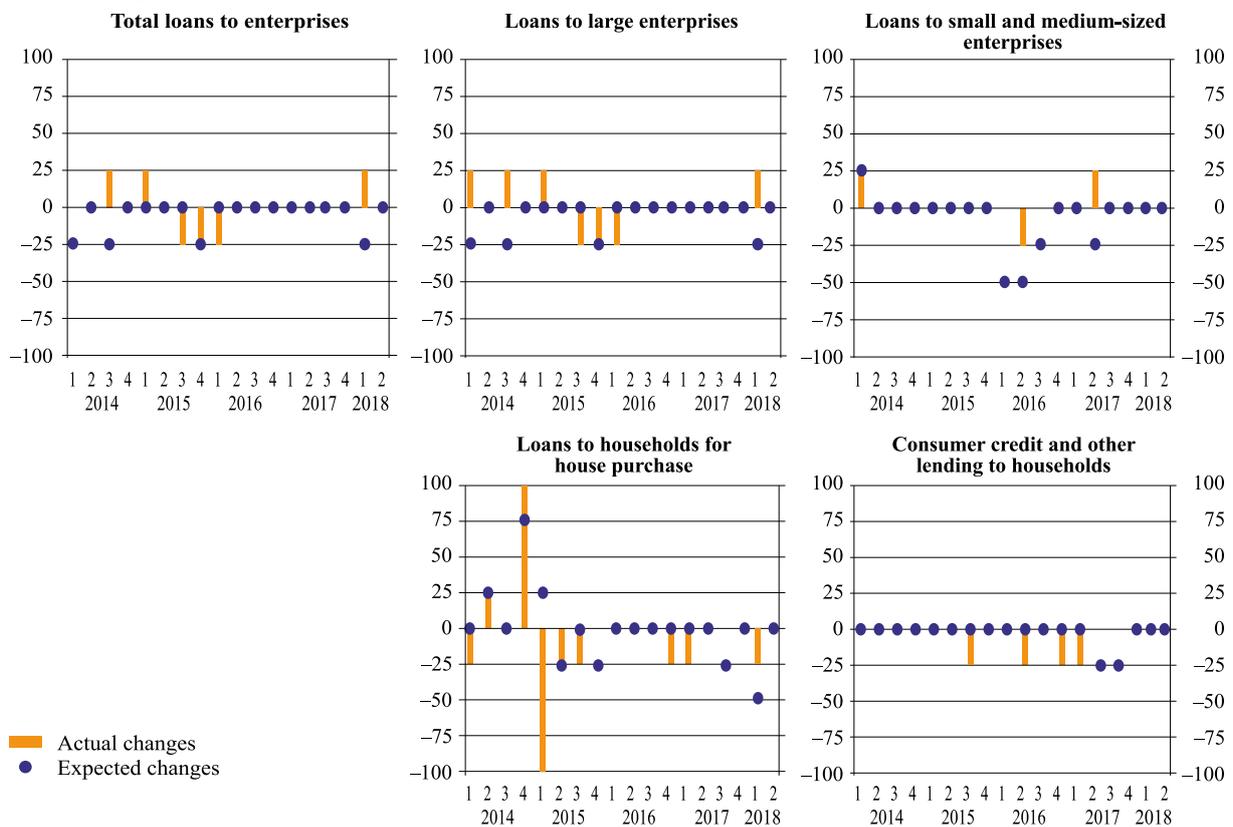
In the second quarter of 2018, three of the four surveyed Latvian banks expect to see a rise in the demand for loans to households for house purchase, and two banks – in the demand for consumer credits and other lending to households.

Credit standards and terms and conditions

Chart 4

CHANGES IN CREDIT STANDARDS

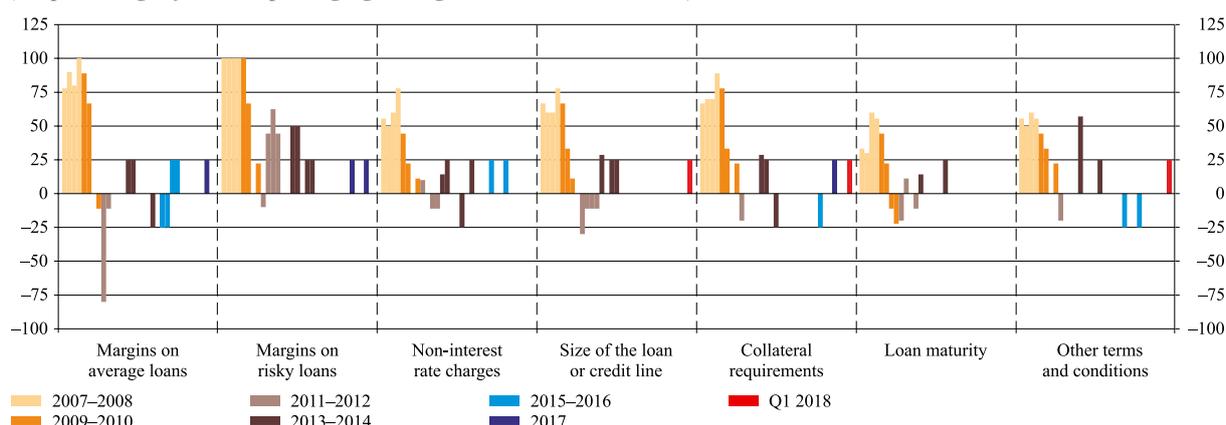
(net percentage of banks reporting tightening credit standards; %)



One surveyed Latvian bank (contrary to the previous forecasts) applied slightly stricter credit standards for long-term loans to large enterprises in the first quarter of 2018. The above changes in credit standards were attributed to the general economic situation and development prospects as well as to a bank's risk tolerance level. In the first quarter of 2018, the share of rejected loan applications remained unchanged in all surveyed Latvian banks. Latvian banks expect that credit standards on loans to enterprises will be kept unchanged in the next quarter.

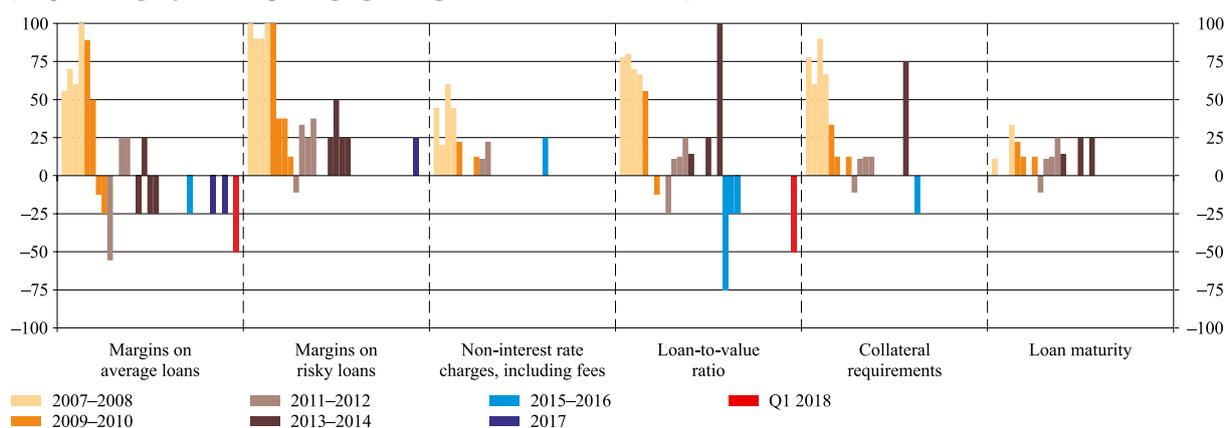
In the first quarter of 2018, following a higher assessment of the risks inherent in the economy and financial system, one surveyed Latvian bank somewhat tightened the terms and conditions for loans to large enterprises in relation to the amount of loans, collateral requirements and special lending conditions. Moreover, a higher risk assessment slightly contributed to the widening of margins on risky loans to enterprises (see Chart 5) at the above bank.

Chart 5
CHANGES IN TERMS AND CONDITIONS FOR LOANS TO ENTERPRISES
(net percentage of banks reporting tightening terms and conditions; %)



In the first quarter of 2018, one Latvian bank slightly eased credit standards for loans to households for house purchase. It was competition from other banks, the general economic situation and development prospects as well as improvement of household creditworthiness that somewhat contributed to easing credit standards for loans to households for house purchase. The share of rejected applications for loans for house purchase remained unchanged in all surveyed Latvian banks in the first quarter of 2018, and it is expected that credit standards will be kept on hold at the present level in the next quarter.

Chart 6
CHANGES IN TERMS AND CONDITIONS FOR LOANS FOR HOUSE PURCHASE
(net percentage of banks reporting tightening terms and conditions; %)



In the first quarter of 2018, due to the competition pressure, two of the surveyed banks also slightly eased credit terms and conditions for loans to households for house purchase, i.e. the above banks reduced margins on average loans as well as increased the loan-to-value ratio in relation to loans for house purchase.

All surveyed Latvian banks kept their credit standards for consumer credits and other lending to households unchanged in the first quarter of 2018, and they do not intend to change them in the next quarter. However, the improvement of consumer creditworthiness somewhat contributed to easing credit standards for loans in this lending segment. The share of rejected applications for consumer credits and other lending to households remained unchanged in all surveyed Latvian banks in the first quarter of 2018, but one bank slightly eased credit terms and conditions. Margins on average loans were somewhat reduced for consumer credits and other lending to households, and the amount of loans to be granted was increased.

Ad hoc questions

During the euro area bank lending survey on lending developments conducted in April 2018, banks were asked several ad hoc questions on the level of credit standards and effects of the Eurosystem's monetary policy instruments.

An additional question on the current level of credit standards vis-à-vis the level of credit standards over a longer period was asked to Latvian banks. The current level of credit standards in comparison with the level of credit standards prevailing between the first quarter of 2003 and the current quarter in all Latvian banks capable of providing their assessment of the above period is slightly or considerably tighter than the midpoint of the range in all loan categories under consideration, i.e. overall loans to enterprises, loans to small and medium-sized enterprises, loans to large enterprises, loans to households for house purchase, consumer credits and other lending to households. Meanwhile, the current level of credit standards compared to that observed between the second quarter of 2010 and the current quarter differs across various credit categories and banks. The current level of credit standards for loans to households, including loans for house purchase as well as consumer credits and other lending to households, is slightly eased in the surveyed bank sector, i.e. it is identical in one bank, somewhat eased in two banks and considerably eased vis-à-vis the midpoint of range in one bank. Meanwhile, the current level of credit standards concerning loans to enterprises is still somewhat tighter, i.e. it is identical in one bank, slightly eased in one bank, somewhat tighter in one bank and considerably tighter vis-à-vis the midpoint of range in one bank.

Within the euro area bank lending survey, banks were asked a question on the impact of the Eurosystem's negative deposit facility rate. The negative deposit facility rate somewhat diminished the net interest income of three surveyed Latvian banks in the fourth quarter of 2017 and the first quarter of 2018, and it is expected that two banks will witness its adverse effect on the net interest income in the second and third quarters of 2018. Over the last six months, a bank has seen the negative deposit facility rate contribute marginally to the decline in interest rates on loans to enterprises, loans to households for house purchase as well as on consumer credits and other lending to households, and this situation will remain unchanged in the above bank during the next six months.